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STATE FOR NEA/ELA AND EEB/IFD/OMA

E.O. 12958

TAGS: [EFIN](#) [EAID](#) [PREL](#) [JO](#)

SUBJECT: JORDAN REPEATS REQUEST FOR U.S. SUPPORT FOR PARIS CLUB  
DEBT BUYBACK; SEEKS SAME FROM OTHER CLUB MEMBERS

REF: A) STATE 83434 (NOTAL), B) AMMAN 1961 (NOTAL)

(U) Sensitive but Unclassified. Protect Accordingly.

¶1. (SBU) Jordanian officials have renewed their request for the U.S. to join in supporting a debt buyback scheme. The King's Officer Director, Bassem Awadallah, sent Ambassador a new background paper and the text of a letter the Finance Minister sent to the head of the Paris Club (text below). The King has continued his personal lobbying campaign on the issues, and Awadallah claims German Chancellor Merkel is on board and has in turn urged Japanese officials to join in support (the Jordanians said this may have backfired with the Japanese, who let it be known they preferred to handle their bilateral relationship with Jordan bilaterally). The King intends to raise the proposal with President Sarkozy during a short Paris visit on July 4, and did so with Gordon Brown during a trip to London over a week ago.

¶2. (SBU) Ambassador reiterated ref A points. Awadallah asked for reconsideration of our position, noting 1) the request for U.S. support in the Paris Club, not for U.S. participation in a buyback operation, b) prepayment would provide only limited relief to Jordan, and c) other countries allegedly have gained Paris Club support for buybacks.

¶3. (SBU) Comment: Post will continue to monitor GOJ engagement with other Paris Club members and report any developments. Emboffs as well as the Treasury Advisor to the Ministry of Finance have made clear to the Minister and Secretary General the U.S. position against and legislation prohibiting discounting debt for buybacks. Moreover, the Advisor has suggested that the purchase of floating rate debt would be more attractive to Jordan at this time, rather than purchasing fixed rate loans. The Minister reiterated to the Advisor that Jordan's concern is not their dollar-denominated debt, but the positions in Japanese Yen and Euros. Despite delivery of ref A points, senior Jordanian officials - including, eventually, the King are certain to step up direct lobbying efforts with U.S. counterparts. End comment.

¶4. (SBU) Begin Text of GOJ request for U.S. support:

Request for Support with Paris Club Creditors for a Debt Buy Back Agreement with Jordan June 2007

Jordan today continues to be the leading advocate for finding a sustainable and peaceful regional political framework, based on international legality, good faith, and mutual interests. It is only within such a framework that the Middle East as a region can attain

its potential and realize the aspirations of its young population. This framework will be sustained through political pluralism, respect for human and civil rights, freedom of speech, social and economic development, and a modern, inclusive society. A process of reform is needed in our region to bring about this

framework. Home-grown and credible reforms in each country are required. This effort must, however, receive full support from the international community for it to take root and succeed in attaining its results.

Jordan is confidently and aggressively forging ahead with its reform process. In the medium term and to allow Jordan the fiscal space to implement necessary measures, it continues to count on the support of the international community, particularly Paris Club members to relieve some of the debt burden which continues to constrain the fiscal space for increased and accelerated investments in reform. Jordan is faced today with the twin challenges of rising oil prices and a sharp reduction in foreign grant assistance that threatens to derail much of the achievements attained and future growth and stability prospects. Jordan realizes the primacy of fiscal reforms to creating a healthy budget that articulates national development priorities, and is committed to accelerating the measures that it has already undertaken aimed at reducing current expenditures to allow for more fiscal space for capital investments and increasing revenues through tax reform. Jordan is also committed to accelerating its ambitious privatization program.

We continue to be heavily dependent on aid for our development process, and the continued support of the international community has allowed us to forge ahead with such efforts. Further, the regional political instability reflected by the continuing Palestinian-Israeli conflict to Jordan's west and the Iraqi conflict to its east have substantially reduced investor interest in the region and disrupted many economic activities, while the loss of the Iraqi oil grant has had huge adverse effects on the Jordanian economy.

Jordan's budget has suffered as a consequence. In 2007, current expenditures are expected to exceed domestic revenues by \$462 million, with the oil subsidy, pension outlays, and debt service \$1.81 billion (or 40% of current expenditures, and 31% of total expenditures), of which \$852 million is for serving debt. The budget is more strained due to the increase in the prices of oil and it becomes increasingly harder in the medium-term to maintain a prudent and sound fiscal situation. The budget deficit (after grants) is expected to exceed 8%, thus threatening the macroeconomic stability gained over the years.

Jordan has embarked on a fiscal reform package to phase out oil subsidies by February 2008, enhance revenues through a reformed, more efficient, tax system, and enabling laws and regulations, as well as reduce expenditures.

The current stock of Jordan's outstanding foreign debt amounts to \$7.3 billion (56% of GDP), of which \$4.5 billion is outstanding to Paris Club creditors, constituting almost 61.3% of its total foreign debt stock.

Of the total outstanding debt owed to Paris Club creditors, over 90% is due to five main creditors as follows: (1) Japan: \$1,438 million, (2) France: \$949 million, (3) the United Kingdom: \$675 million, (4) the United States: \$525 million, and (5) Germany: \$460 million.

Due to the U.S. Dollar's depreciation against the Euro and Japanese Yen in the past few years, Jordan, which pegs its currency to the U.S. Dollar, has seen its debt burden increase dramatically in Dollar terms. In 2006 alone, Jordan has incurred an additional debt burden of \$275 million as a result of Dollar depreciation alone.

In the past, Jordan has resorted to buying back and restructuring some of its debt in order to reduce its total debt burden. In 1993, Jordan rescheduled \$736.5 million, representing the whole amount of its commercial debt through replacing it with 30-year bonds (Brady Bonds). Jordan also bought back \$800 million of the debt owed to Russia for \$140 million (at a 82.5% discount), and entered into several debt swap agreements, such as that entered with France in 1999 through which \$69.2 million were used to purchase interests in investment projects at a 47% discount. The latest such debt swap arrangement was concluded in March 2006 with the German development agency KfW, where debt was swapped for 30 million at a 50% discount rate.

As part of its efforts to reduce external debts and the burden of servicing debt Jordan has also resorted to using part of its privatization proceeds to reduce its debt burden. In 2003, Jordan

bought back \$243 million from France, the UK, and Spain, and rescheduled \$316 million.

Jordan's outstanding debt to the U.S. amounts to \$525 million, or 12% of the total outstanding debt to Paris Club creditors. At the current scheduling, Jordan also owes an additional amount of \$217 million as interest, for a total debt burden of \$742 million. In 2007 servicing debt owed to the U.S. amounts to \$47.3 million (\$21.7 million in principal and \$25.6 million in interest).

Jordan would like to explore the possibility of buying back part of its debt from Paris Club members, partly using its privatization proceeds which currently stand at around \$1 billion. Accordingly, Jordan has requested the possibility of entering into an early debt repayment plan with Paris Club creditors in January 2007.

To ensure that reforms in Jordan are successful and fiscal stability is maintained, Jordan counts on the support of the U.S. and the Paris Club to buy back its outstanding debt at a fair discount rate.

Given the U.S.'s leadership position within the international community, Jordan counts on its support with other members of the Paris Club to conclude debt buy back agreements.

Such measures will complement domestic fiscal measures that are being undertaken to reduce the oil subsidy bill, pension outlays, and administrative current expenditures. It would permit the increased allocation of government resources towards the development process, help improve Jordan's international credit worthiness and private investor confidence, as well as help support Jordan's efforts in building a regional model of economic vitality, peace, regional cooperation, and social stability.

The support of the international community, and particularly the U.S., for home-grown initiatives aimed at a sustained interest in stability, security, and peace in the region is vital, indeed invaluable, for starting and successfully completing such a process.

We share the view that only open, democratic, and free societies can sustain peace, stability, and prosperity in this region and the world. And it is this view that lies behind our commitment to the success of reforms in Jordan and, indeed, the region.

Beyond national and regional efforts, Jordan is also keen on building cross-border partnerships with like-minded, reforming countries to accelerate development in the respective countries and to enhance global peace and stability. Accordingly, in August 2005,

His Majesty King Abdullah II proposed a new partnership to enhance cooperation and coordination between a select number of lower-middle income countries, which include Croatia, Ecuador, Georgia, Honduras, Indonesia, Jordan, Morocco, Pakistan, Paraguay, and Sri Lanka. Since then, two heads of state summits, the last of which was in Jordan in May 2007, and several meetings at the technical level were convened to move forward a common reform agenda and to work closely with the G8 in that respect.

We are pleased to have been invited, as G11 presidents, to meet with the G8 presidency in Germany in the second half of 2007, and we view such efforts as part and parcel of our own internal development efforts and as enablers for our countries to contribute further to global peace and prosperity.

Jordan counts on continued U.S. support with its requests from the Paris Club. U.S. support has been important in the past to maintain Jordan's stability, and it is still necessary today to enable Jordan to continue implementing its ambitious reform agenda and to create sustainable growth and development.

End text.

15. (SBU) Begin Text of Ziad-Musca letter:  
Ministry of Finance  
Deputy Prime Minister & Minister of Finance  
Minister's Office

12/1/33/7014  
June 28, 2007

H.E. Mr. Xavier Musca  
Chairman of the Paris Club  
Director General of the Treasury and Economic Policy Department  
Ministry of Economy, Finance, and Industry  
French Treasury  
139, rue de Bercy, Teledoc 551  
75572 Paris VEDEX 12, France

Excellency,  
Further to my communication with you earlier this year regarding Jordan's current endeavors to reduce its external debt burden

through, inter alia, repayment to the Paris Club members, and following your e-mail reply on this issue, allow me to take this opportunity to extend my sincere gratitude and warmest appreciation for the continued support with the Paris Club has graciously granted Jordan throughout its development process. Jordan is particularly grateful for the 2002 Agreement with the Paris Club to reschedule about \$1.2 billion in debt due in the period July 2002 - December 2007.

Forging ahead with our reform agenda has enabled us to achieve favorable results and graduate from the IMF program in July 2004. Since 2004, real growth has averaged more than 7%, domestic exports almost doubled, while inflation has been successfully contained. As Jordan embarks on building a regional social, political, and economic model, it will continue to move forward with its reform agenda to credibly address the challenges that it faces.

As you are well aware, one of the main challenges that Jordan continues to face is the Kingdom's debt burden and its related level of debt service, which remain high despite the significant domestic efforts made during the past decade in reducing the ratio of external debt to GDP that now stands at 56%. Due to our high debt burden, the increase in world oil prices and continued regional instability, Jordan's budget is constrained. In 2007, current expenditures are expected to exceed domestic revenues by \$462 million. The oil subsidy, pension outlays, and debt service will account for \$1.81 billion or 40% of current expenditures, and 31% of total public expenditures. Debt service alone equals \$852 million. The budget deficit (before grants) is expected to exceed 8%, thus threatening the macroeconomic stability gained over the years. As a non-oil producing country in the midst of a region that is practically awash in oil, the Jordanian economy confronts many constraints. Jordan is faced today with the twin challenges of rising oil prices and a sharp reduction in foreign grant assistance that threaten to derail much of the achievements attained and future growth and stability prospects. Jordan realizes the primacy of fiscal reforms to creating a healthy budget that articulates national development priorities, and is committed to accelerating the measures that it has already undertaken aimed at reducing current expenditures to allow for more fiscal space for capital investments and increasing revenues through tax reform. Jordan is also committed to accelerating its ambitious privatization program. That being said, Jordan's poverty and unemployment profile still imposes a real challenge to policy makers. External support is necessary to ensure that resolute reforms are both popular and

successful. This can be facilitated through substantially increasing domestic resources devoted to poverty reduction. In the medium-term and to allow Jordan the fiscal space needed to implement necessary measures to raise living standards and implement pro-poor development strategies, the Kingdom continues to count on the support of the international community, particularly Paris Club members, to relieve some of the debt burden which continues to constrain the fiscal space for increased and accelerated investments in reform.

Currently the stock of Jordan's outstanding foreign debt amounts to \$7.3 billion (56% of GDP), of which \$4.5 billion is outstanding to Paris Club creditors, constituting almost 61.3% of its total foreign debt stock. Of the total outstanding debt owed to Paris Club creditors, over 90% is due to five main creditors as follows: (1) Japan: \$1.438 billion, (2) France: \$949 million, (3) the United Kingdom: \$675 million, (4) the United States: \$525 million, and (5) Germany: \$460 million.

Accordingly, and to ensure that reforms in Jordan are successful and fiscal stability is maintained, Jordan would like to explore with the Paris Club the possibility of buying back its debt outstanding to Paris Club creditors at a fair discount rate, partly using its privatization proceeds which currently stand at around \$1 billion. Such measures will complement domestic fiscal measures that are being undertaken to reduce the oil subsidy bill, pension outlays, and administrative current expenditures. It would permit the increased allocation of government resources towards the development process, help improve Jordan's international credit worthiness and private investor confidence, as well as help support Jordan's efforts in building a regional model of economic vitality, peace, regional cooperation, and social stability.

To conclude, the support of the international community, particularly during phases of political and economic external shocks, has been pivotal in backing Jordan's reforms, and today a strategy for the early repayment of debt is also needed to place

Jordan distant from any risks that may endanger its noticeable achievements over the past years and to help the country achieving long-term fiscal sustainability and reaching widely-shared growth. I look forward to the positive response of the Paris Club in this regard. In the meantime, please accept my highest esteem and consideration.

Sincerely yours,  
/s/

Dr. Ziad Fariz  
Deputy Prime Minister  
and Minister of Finance.

End text.

Visit Amman's Classified Web Site at  
<http://www.state.sgov.gov/p/nea/amman>

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